

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6361

BILL NUMBER: SB 17

DATE PREPARED: Nov 18, 2001

BILL AMENDED:

SUBJECT: Rainy Day Fund loans.

FISCAL ANALYST: Bob Sigalow

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes a loan from the Rainy Day Fund for the taxing units located in Porter County that will experience a budget shortfall as the result of the bankruptcy of a steel manufacturer located in the county. The bill provides that the loan is interest free and must be repaid over 10 years.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: This bill permits qualified taxing units in Porter County facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). The bill limits the total amount of the loans to \$31.4 M. No interest is to be charged on the loans. The bill requires that the loans be repaid in 10 years. The balance of the Rainy Day Fund as of June 30, 2001, was \$526 M and is estimated to be \$526 M at the end of FY 2002.

The Rainy Day Fund will suffer a loss of interest income on the outstanding loan balance. Based on the current six month U.S. Treasury Bill interest rate (1.88%), the state could forgo earnings of approximately \$96,000 in FY 2002, \$470,000 in FY 2003, and \$516,000 in FY 2004 if all of the qualifying units receive the maximum loan amounts. The total interest over the 10 year payback period is estimated at \$3.1 M. The loss of interest earnings will reduce the amount of funds available for transfer from the Rainy Day Fund to the state General Fund in FY 2002 and FY 2003 and the Property Tax Replacement Fund in years after.

Explanation of Local Expenditures:

Explanation of Local Revenues: This provision would allow Porter County taxing units to apply for a loan before January 1, 2002 with repayment within 10 years. In order for the taxing unit to qualify, the bill would require an expectation of *continued* significant revenue shortfalls due to a steel manufacturer's default on

tax payments. The loan would be made in three installments on December 17, 2001, June 15, 2002, and December 15, 2002. The amount of an individual taxing unit's first installment would be limited to the amount of the unit's share of the tax payment that was defaulted in November 2001. The next two installments would each be limited to the amount of the first installment plus 3.1%. The total of all loans may not exceed \$31.4 M. The estimated maximum loan amounts are:

Estimated Maximum Loans Due to Taxpayer Default Under Proposal				
Unit Name	December 2001	June 2002	December 2002	Total
Porter County	1,951,200	2,011,700	2,011,700	5,974,600
Portage Township	11,300	11,600	11,600	34,500
Westchester Township	22,500	23,200	23,200	68,900
Portage Civil City	122,300	126,100	126,100	374,500
Chesterton Civil Town	900	1,000	1,000	2,900
Burns Harbor Civil Town	603,500	622,200	622,200	1,847,900
Dune Acres Civil Town	5,200	5,400	5,400	16,000
Porter Civil Town	700	700	700	2,100
Duneland School Corporation	6,876,800	7,090,000	7,090,000	21,056,800
Portage Township School Corp	189,700	195,600	195,600	580,900
Westchester Public Library	395,100	407,400	407,400	1,209,900
Porter County Public Library	12,100	12,500	12,500	37,100
Porter Co Airport Authority	40,000	41,200	41,200	122,400
Total	10,231,300	10,548,600	10,548,600	31,328,500

The money used to repay the loans must come from a fund that is subject to the unit's maximum permissible levy. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed the taxpayer's liability, then the excess would be deposited into the taxing units' Levy Excess Funds.

State Agencies Affected: State Board of Finance, State Board of Tax Commissioners (Department of Local Government Finance.)

Local Agencies Affected: Porter County taxing units listed above.

Information Sources: Porter County Auditor's Office; Local Government Database.